

**MINUTES OF A MEETING  
KENTUCKY WORKERS' COMPENSATION FUNDING COMMISSION  
BOARD OF DIRECTORS**

**May 18, 2017**

**Opening of Meeting:**

1. A regular meeting of the Board of Directors, Kentucky Workers' Compensation Funding Commission was held on May 18, 2017, in the Commission's conference room, located at 42 Mill Creek Park, Frankfort, Kentucky. Madam Chair Judy Long called the meeting to order.
2. Ms. Angela Calloway announced the meeting will be recorded in accordance with Kentucky Revised Statute 61.835.
3. Madam Chair Long verified press notice and asked for roll call.

**Directors Present:**

4. Judy Long, Self-Insured Employers Representative  
Ted Lockett, Labor Representative  
Secretary Derrick Ramsey, Labor Cabinet  
Duran Hall, Commercially Insured Employers  
Edwin King, Designee for Secretary William Landrum, Finance & Administration Cabinet  
Caroline Baesler, Designee for Secretary Terry R. Gill, Jr., Cabinet for Economic Development

**Others Present:**

5. Reuben Jones, Executive Director, KWCFC  
Louie Hord, Director of Fiscal Operations, KWCFC  
Lisa King, Audit Review Manager, KWCFC  
Renee Haddix, Director of Audit and Collections, KWCFC  
Angela Calloway, Fiscal Services Officer, KWCFC  
Gordon Stammel, Computer Network Manager, KWCFC  
Brooken Smith, Chief of Staff, Labor Cabinet  
Alex Englin, Labor Cabinet  
Michael Swansburg, General Counsel, Labor Cabinet  
Daniel Auxier, Office of Financial Management

Ryan Barrow, Executive Director, Office of the Controller, OFM  
Andrew Manno, Legislative Research Commission  
Dustin Miller, Government Strategies/AIG

6. Madam Chair Long recognized the retirement of Mr. Gordon Stammel, effective August 1, 2017, and thanked him for his service to the Commission.

**Approval of Minutes:**

7. Secretary Derrick Ramsey made a motion to approve the March 22, 2017 Minutes. Mr. Duran Hall seconded the motion. Motion carried.
8. Secretary Ramsey made a motion to approve the April 27, 2017 Special Meeting Minutes. Mr. Hall seconded the motion. Motion carried.

**Financial Report:** Louie Hord (report on file for referral)

9. Mr. Louie Hord reviewed the year to date budget versus actual expenses for KWCFC, the year to date internal financial statements, and fiscal year to date interagency transfers made by KWCFC for the period ending April 30, 2017.
10. Ms. Caroline Baesler made the motion to accept the Financial Reports as presented. Mr. Edwin King seconded the motion. Motion carried.

**Investment Report:** Ryan Barrow (report on file for referral)

11. Mr. Ryan Barrow, Office of Financial Management, presented a report reflecting what has been done in the past as the Commission moves to a different investment strategy. Mr. Barrow recommended a new investment policy as one of the first things the Board needs to do with adding an investment consultant.
12. Mr. Barrow presented the following investment strategy history highlights: 1) May 19, 2011, the Board adopted a treasury matching strategy; 2) November 17, 2011, the Board changed the investment allocation of the Coal Workers' Pneumoconiosis Fund to primarily fixed income; 3) May 23, 2013, Securities Lending was implemented to generate some additional income; 4) July 21, 2016, another yield generation was the 10-year Special Treasuries which has now stopped.
13. Mr. Barrow stated the Investment Policy Statement was updated July 2012, November 2012 and November 2013. The primary tenants of the policy were safety of principal and liquidity of the investments while providing the financial wherewithal to meet future benefit obligations.
14. Mr. Duran Hall made the motion to accept the Investment Report as reported by Mr. Barrow. Ms. Caroline Baesler seconded the motion. Motion carried.

**Contract Update:** Louie Hord (report on file for referral)

15. Mr. Louie Hord stated at the last meeting, the Board gave its approval to issue 2 Request for Purchases (RFP) to hire an actuary and a Certified Public Accountant (CPA) firm to perform the 2017 actuarial and financial audits.
16. Mr. Hord advised RFPs were prepared and posted on the State procurement system with a due date of 3 a.m. in error. An addendum was posted allowing additional time to respond.
17. Mr. Hord stated he will be able to make recommendations to the Board regarding the RFP outcomes at the Special Board meeting scheduled on June 21, 2017.
18. Mr. Hord reported funding is needed to modify the legal contract for the remainder of 2017 and fiscal year 2018. He stated the amount would be addressed in the "Other Business" session of this meeting.
19. Mr. Reuben Jones prefaced the update on the Investment Consultant RFP.
20. Mr. Hord reviewed previous KWCFC investment structures and responsibilities of the investment consultants and managers.
21. Mr. Jones added discussion regarding 3 investment management options: Option 1: Outside consultant, Option 2: In-house, and Option 3: Single firm.
22. Secretary Ramsey commented on his experience with consultants and managers. He believes the current recommendation adds an unnecessary layer where it is not needed. He added he is in full support of whatever the Board chooses.
23. Mr. Edwin King asked Mr. Ryan Barrow if a single firm model was selected, would there be a need for someone at the Commission to perform the cash flow analysis function.
24. Mr. Barrow responded under either model someone at the Commission needs to pay attention to cash flow. He stated with the single payer model, maybe a little more attention is necessary.
25. Mr. Jones added the RFP would need to be carefully drafted to ensure the requirements are put into the RFP to make sure the Board gets what they are asking for.
26. Madam Chair Long added Kentucky has 2 Guarantee Funds. She stated both use an investment firm to handle all of their investments. She said at Board meetings they receive a comprehensive status report of their investments. The Board is responsible for the investments. The investment firm has done an excellent job over the years.

27. Ms. Caroline Baesler gave the example of her office often using outside counsel. She said while they have three outside counsels on contract, it does not mean they use all three at the same time. She asked if there could be an option to have more than one firm selected on contract. In the event of poor performance by the first firm, the Board would be able to transfer the funds to the other firm without re-competing the RFP.
28. Mr. King stated the RFP could certainly be drafted that way.
29. Mr. Barrow stated because someone does need to watch the cash flow, he does not recommend the Board divide it between a lot of firms because that would add to the level of complication.
30. Madam Chair Long stated if the Board was interested in changing how it wants to handle an investment firm, the first thing that has to be done is to rescind the motion from the April 27<sup>th</sup> meeting. She asked for a motion to rescind the motion from the April 27<sup>th</sup> meeting to develop an RFP to hire an investment consultant.
31. Mr. Duran Hall made the motion to rescind the previous motion. Secretary Ramsey seconded the motion. Motion carried.
32. Mr. King made a motion to create an RFP for Option 3 to procure an investment firm fund manager. Secretary Ramsey seconded the motion. Motion carried.

**Audit & Collections Update:** Renee Haddix (report on file for referral)

33. Ms. Renee Haddix presented an update on the number of audits ongoing and completed.
34. Secretary Ramsey made the motion to accept the Audit and Collections report as presented. Ms. Caroline Baesler seconded the motion. Motion carried.

**Executive Session:**

35. Madam Chair Long asked for a motion to go into Executive Session under KRS 61.810 (1) (c), (f) and (j) to discuss litigation, personnel, and penalty waivers.
36. Mr. Duran Hall made the motion to go into Executive Session. Secretary Ramsey seconded the motion. Motion carried.

### **Open Session:**

37. Mr. Duran Hall made the motion to return to open session. Ms. Caroline Baesler seconded the motion. Motion carried.
38. Madam Chair Long excused herself from the meeting for a previously scheduled appointment. Mr. Hall proceeded as Acting Chair.

### **Other Business:**

#### **Penalty Waivers**

39. Ms. Caroline Baesler made a motion to waive penalty in the amount of \$180.67 on a one-time only basis for the late filing of National Liability & Fire's 4<sup>th</sup> quarter 2016 Quarterly Premiums Report, per KRS 342.1221, interest cannot be waived. Secretary Ramsey seconded the motion. Motion carried.
40. Ms. Baesler made the motion to waive penalty in the amount of \$16.64 on a one-time only basis for the late filing of New York Marine's 4<sup>th</sup> quarter 2016 Quarterly Premiums Report. Secretary Ramsey seconded the motion. Motion carried.
41. Ms. Baesler, with permission granted by the Chair, moved to waive the following penalty on a one-time only basis for the late filing of 1<sup>st</sup> quarter 2017 QPR's due to the legislative changes. These are penalty in the amount of \$5.78 for Blackstorm Energy, \$7.29 for Black Gem Coal Sales, Inc., penalty in the amount of \$50.53 for Mason Coal, penalty in the amount of \$36.61 for Sturgeon Mining Co., and a penalty in the amount of \$351.85 for Alden Resources.
42. Acting Chair Hall recused himself from voting due to conflict of interest.
43. Secretary Ramsey seconded the motion. Motion carried.

#### **Personnel**

44. Ms. Caroline Baesler made the motion to promote Ms. Lisa Fernandez to Compliance Auditor IV with a salary of \$52,065.00 effective June 1, 2017. Secretary Ramsey seconded the motion. Motion carried.

#### **Legal Contract Modification**

45. Acting Chair Hall asked for a motion to consider for payment of bills presented through March 31, 2017 for Goldberg Simpson. Secretary Ramsey moved the motion. Ms. Caroline Baesler seconded the motion. Motion carried.

### Audit Software Program

46. Ms. Lisa King updated the Board on the purchase of an Audit Program Software. She pointed out currently the Audit Program does not have an audit management tool and it is maintained primarily on antiqued excel spreadsheets. Ms. King said a new system would allow improved efficiency and cohesiveness in the audit program.
47. Ms. King explained the next step is to request approval in the amount of \$250K for new audit program software. Ms. King also addressed the additional steps to complete the purchase.
48. Ms. Renee Haddix further explained how the audit staff currently works within the excel program and added the audit program works under an administrative regulation where the expenses of the audit program are borne by companies that are being audited and the Commission would look at some of the cost for the program being billed back to companies. She explained initially the state would have a dollar outlay but the state will recoup the associated cost or a significant portion of it.
49. Secretary Ramsey asked if it would be in this fiscal year. Mr. Reuben Jones stated the Commission hopes to have the software in place and working by September 2017.
50. Mr. Edwin King added Finance is looking at Information Technology from an enterprise level. They have noticed several different agencies have the different licensing for the same software. He added he did not know if they had a similar program but said perhaps there is a similar platform that they could put software on. He stated when this is submitted to the Commonwealth Office of Technology, the TAC (Technology Advisory Council) will analyze it and see if they can find efficiencies and if there is already something similar to assist in this matter. Acting Chair Hall asked if Mr. King thinks this meets their efficiencies and Mr. King stated he did not see a problem with it.
51. Acting Chair Hall asked for a motion to request the purchase of an audit software program as submitted by Ms. King. Secretary Ramsey moved the motion. Ms. Caroline Baesler seconded the motion. Motion carried.

### HB 377 Implementation Stakeholder Meetings

52. Mr. Reuben Jones updated the Board members on stakeholder meetings and presented the agenda for the next meeting scheduled June 14, 2017.

### Print Management Review

53. Mr. Reuben Jones presented a plan to update the print management capabilities of the Funding Commission. He pointed out the advantages including aligning with the Commonwealth's Managed Print Services Policy, upgrading our capabilities and cost saving measures.

### Adjournment:

54. Ms. Caroline Baesler made a motion to adjourn. Mr. Ted Lockett seconded the motion. Motion carried.

  
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Chairman of the Board